

Martinovic, Danijela; Karisik, Jasmina; Bico-Car, Mirha

Article

Internationalization and cluster potentials with special emphasis on wood-processing sector in Bosnia and Herzegovina

UTMS Journal of Economics

Provided in Cooperation with:

University of Tourism and Management, Skopje

Suggested Citation: Martinovic, Danijela; Karisik, Jasmina; Bico-Car, Mirha (2013) : Internationalization and cluster potentials with special emphasis on wood-processing sector in Bosnia and Herzegovina, UTMS Journal of Economics, ISSN 1857-6982, University of Tourism and Management, Skopje, Vol. 4, Iss. 2, pp. 231-242

This Version is available at:

<https://hdl.handle.net/10419/105327>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

INTERNATIONALIZATION AND CLUSTER POTENTIALS WITH SPECIAL EMPHASIS ON WOOD-PROCESSING SECTOR IN BOSNIA AND HERZEGOVINA

Danijela Martinovic¹
Jasmina Karisik
Mirha Bico-Car

Abstract:

Small and medium enterprises (SMEs) in all national economies are generators of growth and development. This statement is confirmed by the fact that SMEs in the European Union (EU) account for 90% of the total number of companies, and that more than 23 million of these companies employ over 67% of the workforce in the private sector. European law on small and medium enterprises creates favorable regulatory conditions for their further growth. However, adequate attention has not yet been paid to this sector in Bosnia and Herzegovina (BiH). Economic growth in pre-war Yugoslavia was based on a system of large company networks from complementary industries which were deliberately designed. War and disintegration of Yugoslavia have disrupted this concept and sparked a series of dilemmas in terms of re-directing and developing the national economy. Many economists have advocated for the restoration of pre-war business giants. Nevertheless, war, institutional destruction and loss of educated and skilled labor, as well as technological obsolescence, loss of previous markets and industries created the opinion that SMEs should first be developed and then connected through networking and clustering. This would eventually lead to the creation of large and powerful production systems. This paper examines how far BiH has progressed in this regard and how consistent is its economic policy. Moreover, this work provides a review of business practices and the potential of clustering, and finally business internationalization of SMEs.

Keywords: clusters, clustering, small and medium enterprises.

Jel Classification: M200

INTRODUCTION

In all national economies small and medium enterprises are believed to generate growth and development. The fact that SMEs account for 90% of the overall number of companies in the European Union, and that more than 23 million of these companies employ over 67% of the workforce in the private sector confirms the above statement.

¹ **Danijela Martinovic**, Ph.D., Assistant Professor; **Jasmina Karisik**, M.Sc., Senior Teaching Assistant; **Mirha Bico-Car**, M.Sc., School of Economics and Business, Sarajevo, Bosnia and Herzegovina.

The European law on small and medium enterprises creates favorable conditions for their continuous growth. Conversely, Bosnia and Herzegovina has not given enough attention to the above mentioned sector. The pre-war economic growth of Yugoslavia was based on a system of large company networks and planned complementary industries. The breakup of Yugoslavia which led to a war disrupted the concept of planned economy and created an array of dilemmas regarding the future orientation and development of the national economy. Many economists argued for the reconstruction of the prewar industrial giants. However, war, the destruction of the old system, as well as loss of educated and skilled labor force, technological backwardness and loss of prewar markets and industries all resulted in a new opinion, which saw the development of SMEs and a progressive creation of their networks and clusters, which would eventually result in a creation of large and strong production systems.

The reminder of this work will focus on examining the progress of BiH in this attempt, as well as consider the stability of its economic policy. Additionally, the paper will look at the businesses practices, potential clustering and business internationalization of small and medium enterprises.

CLUSTERING AND INTERNATIONALIZATION OF ACTIVITIES

Clusters are just one form of strategic collaboration and networking between SMEs. Economic literature also includes strategic alliances, industrial districts and virtual organizations. The key difference is in a distinct nature and scope of relations, or better levels of cooperation between companies. Thus, companies can connect on local and/or regional levels with the aim of developing strategic competences and core businesses, as well as to exchange knowledge, experiences and business opportunities. This is done in order to gain easier access to new markets and realize certain profit and cost goals. However, the difference between short-term and „superficial“ cooperation and strategic networking must be made, as the former should generate knowledge and information exchange, at least during its peak development phase.

Considering the above, clusters can be defined as „sector and geographic concentration of complementary, competitor or interdependent companies and industries which generate business opportunities together and/or have mutual needs for knowledge, technology and infrastructure“ (Kolakovic, Sisek, and Moric Milanovic 2009, 28).

Therefore, clusters provide its members with an efficient division of labor and specialization, but also allow for joint usage of staff, intellectual, specialist and technical potential. Moreover, clusters make firms financially strong and strengthen their negotiating positions in relations to the state, financial institutions and business partners – suppliers and buyers.

The results of clustering are visible in the increase of value of each member in the value chain, the advantages of using the benchmarking techniques, division of risk and generating more profit, as well as goodwill, more flexibility and an increased possibility for activity internationalization, just to name a few.

Thus, the biggest advantage for companies which join clusters lies in their increased competitiveness and innovation, both of which are significantly higher than in companies which act alone on the market. On the other hand, both of these factors represent significant potential for acquiring strategic advantage not just on the local, but regional and global levels. However, it is important to note that the relationship

between companies within a cluster can be both cooperative and competitive. With this in mind, we must also underline that there is no direct competition on the local market, but competitors can create significant premises for the development and growth of the entire network.

Djurasevic explains this ambivalence as a potential for internationalization: „Cluster environments are very competitive, but most participants do not compete directly, but through horizontally networked subjects from the same industry which are present on different markets, thus enabling them to compete globally. Therefore, the accent is on value presented results of complementary production, while cluster's physical borders are limited by objective economic rules, not administrative or legal ones“ (Djurasevic 2009, 102).

From the above sentence we can conclude on what presents an essential development potential for BiH's economy, and that is that cluster borders are not connected to administrative or state borders. Clustering and networking of regional companies from neighboring states or regions is becoming a global trend. This tendency allows enterprises to use complementary advantages of neighboring and cross-border regions, as well as to strengthen their capacity and their entrance into new markets, and finally permits for activity internationalization. It is precisely this physical proximity of companies operating in a cluster that allows them to benefit from a number of things, mainly those of transactional nature which do not exist in a case when companies are geographically distant and connected by other means.

Changes in business environments, the appearance of the so called global economy and the global value chain which is so strikingly distinct from the “classical” Porter's chain, all emphasize an increased focus on interest and a need to create intraregional, but also international clusters.

The classical value chain assumed that value can be generated through a chain of connected and well-planned activities within a company. However, it also assumed that value can be generated through creating adequate cooperation/relation with various business partners, notably suppliers and buyers. Most partners were geographically close. Also, there were no significant dispersions of business activities and company locations.

Business partners established relations which varied in scope and depth. According to the type of company relations, it is possible to differentiate between transactional, collaborative, coordinated and synchronized cooperation. Each type and choice of cooperation requires careful goal testing, as well as a number of companies with which cooperation can be achieved. Consequently, transactional cooperation can be made with a large number of companies simultaneously, precisely because this is a superficial relationship between companies whose main goal is to increase everyday business transactions between partners. Companies aim at improving and advancing their business transactions without intending for any closer cooperation and coordination. Collaborative cooperation assumes that partner companies share information, while coordinated cooperation requires coordinated activities between business partners. Exchange, sharing of information and synchronizing planning and executing activities characterize collaborative cooperation. Synchronized cooperation is the most extensive type of cooperation between business partners which is characterized by joint knowledge and information creation. Joint investments in research and development, as well as joint market penetration and activity planning are reserved for chosen companies — the strategically important partners. Different aspects which identify coordinated and synchronized cooperation are of strategic importance for cluster success. Coordination

of activities, their planning, sharing of information and joint market entrance are all present between partners operating in a cluster.

With time, activity coordination also became an essential factor for dislocated units of a single company. The appearance of multinational companies and the global market created a phenomenon where companies opted for dislocating their activities around the globe. Numerous enterprises moved their production units from one part of the world to another in search of cheap labor, natural resources and new markets. The shift from the Western European countries to China which occurred in the textile industry represents one of the many examples of activity dislocation. As a result of these processes, different situations arouse – from placing the goods on foreign markets through sales centers, to dislocating production units (but keeping the sophisticated research and development activities in home countries), to scenarios in which companies moved their activities to brand new markets. The immediate results were that a single company would disperse its activities around the world and realize various types of cooperation with local companies.

Increased competition which appeared due to the nature of activities which occur on the global market, created a need for redefining companies' business strategies. It became clear that companies, notably large ones, cannot be equally competitive in all segments. There were activities which other companies specialized in – they performed their chosen jobs better and with more quality. Thus, it was obvious that companies are better off if they specialize and focus on chosen markets, segments, types of customers, e.g. focus their activity. Focusing on key activities or core business meant that a company could develop a number of key competences, develop business and processes in which it was good or wanted to become better. The transfer of less important activities to others is the basis of outsourcing. By delegating certain activities, companies free their financial and human resources, but also other potentials in order to focus on the development of key skills and competences.

The mere idea of delegating activities and specialization, assuming that the basis for this behavior is found in coordinated and synchronized cooperation, is the core of cluster development.

It is clear that the value chain is limited to only one company and, eventually, its business partners (suppliers and buyers), and that it is becoming an outdated option in the modern business environment. Value generating is not limited to a single company, regardless of how dispersed are its activities and how many dislocated units it possesses. Alternatively, it grows to include all parts of the value chain (all companies and a wide range of business partners). Thus, maximizing the generated value in the whole chain, as well as maximizing profit of all business partners, became the only mutual aim.

Due to a wide range of business partners, their geographical distance, dislocated activities and placement on far-away markets, more and more companies opt to operate according to a principle of global value chain.

Clusters play an important role in generating the value of the global value chain. Specialization and focusing of activities into extremely specialized clusters of relevant or identical industries includes all the above factors – specialization, segmentation, focus on core business, outsourcing, coordination and synchronization of activities and intense cooperation.

Although clusters are characterized by concentrated spaces of similar or supporting industries, it is important to keep in mind the following aspect: in a situation in which one company operates on different markets and in different sectors, it is possible to

create a “partial” cluster of specific segments, business units and centers which are dispersed around the world. This type of clustering contributes to the development of both, the “clusterized” units and the company as a whole.

However, not all companies and organizational units within a company aim at becoming a part of a cluster. Some companies profit more from establishing less formal ties with other firms. There is a need to acknowledge specific conditions, as well as possible cross-company interactions in order to create a more serious analysis.

Moreover, cluster strengthening does not imply that there is a direct correlation between the size and power. In the United States, two thirds of income differences between regions are connected to gains from individual clusters, which, again, do not correlate with their size. Thus, economic power is more important than the size of the cluster. Strong clusters have a significant internationalization potential – the first step in that direction is their regionalization (connecting clusters within a country or outside of it). Regions which have developed the connected types of clusters or complementary clusters, as well as those which managed to connect their own clusters with the regional ones tend to be more successful. Moreover, clusters are capable of being joined together and of growing. Mutual connectedness creates a possibility for using advantages which arise from cluster’s size.

In the process of internationalization, small and medium enterprises often face a number of issues and obstacles, all of which are caused by their (inadequate) size. Single SMEs cannot afford a detailed market analysis and have limited or no international experience. Furthermore, the prerequisites of internationalization have significantly changed over the past years. The very process of internationalization has been studied and closely monitored over the past thirty years, but the emphasis has been on large, transnational companies (Cfr. Paunovic and Prebezac 2010, 62). Their experiences and practice cannot be automatically transferred to small companies, mainly because they are different in nature.

A strong institutional support is needed to boost SME export. Technical support of export promotion agencies is also essential in this process. Of course, a number of other factors which contribute to company’s strength are also inevitable, since they can help in the process of overcoming the initial weaknesses, notably those related to internationalization.

According to a research conducted by Szabo the biggest obstacles in the process of internationalization of SMEs are connected to inadequate business, management and marketing skills and knowledge, but also bureaucracy, inadequate access to information and (specialized) knowledge, and little access to various financial instruments (Paunovic and Prebezac 2010, 61).

THE SITUATION IN BOSNIA AND HERZEGOVINA

Bureaucratic problems, inadequate state support and other problems described by Szabo are common to SMEs in Bosnia and Herzegovina. Technical and advisory help is sporadically offered by development agencies and trade chambers, while financial issues are addressed by banks, international organizations and financial institutions.

Regional development agencies in BiH continuously organize seminars and workshops with the aim of training and equipping business owners with new knowledge in management skills, EU legislature and business practice on foreign

markets. Offering adequate information is also one of the key goals of these agencies, as well as trade chambers, business associations and other specialized institutions in BiH. However, chronic problems such as adverse sources and ways of financing remain. The inclusion of Entity development banks and more efficient use of European pre-accession funds can significantly aid domestic companies, notably SMEs, in overcoming the above problem. Clustering can create fruitful conditions for establishing a relevant base for financial withdrawals, despite of their origin. Strengthening the financial potential of a company, clustering, branding and allocating favorable targeted markets can help in the process of business internationalization.

Regional or intraregional clustering, in terms of connecting regional companies from different countries, is a good initial step towards business internationalization. Companies from BiH can make use of significant financial allocations available through cross-border cooperation programs with Croatia, Serbia and Montenegro, as well as IPA funds for the Adriatic region and MED and SEE programs which foresee economic and other collaborative projects between Mediterranean and SEE countries. These programs can have a positive impact on companies, notably in the process of business internationalization. Naturally, the decision about internationalization depends on business conditions and the size of the domestic market, its openness, market position, company flexibility and lastly manager's willingness to internationalize company activities. In order to successfully commence the process of internationalization, it is also essential to have state aid (which should be export oriented, but market neutral), systematic work of experts, long-term partnerships between state agencies (e.g. foreign investment promotion agencies) and SMEs (Paunovic and Prebezac 2010, 59–61).

The authors of this paper were also interested in finding out whether the above statements are relevant for successful internationalization of companies from BiH, and to what degree can clustering help in the process of overcoming the above mentioned issues.

For the purposes of this research a questionnaire containing 30 questions was made. The questions were structured in the following way: the first part of the questionnaire dealt with general company information, the second part covered the specific issues of a particular business environment – with the accent on legislature, state support and customer requests, while the last part concentrated on the company – its competitiveness, key survival factors, and possible operational differences and differences in skills.

Special focus was put on the potential barriers which arise in the process of internationalization. The questionnaire was sent to companies' addresses (which have a potential for creating a cluster within the wood industry). Unfortunately, only 10% of questionnaires were answered. However, it was possible to draw unique and relevant conclusions based on similar answers to certain questions. In order to confirm the authors' observations and assumptions based on the results of the questionnaire, several in-depth interviews were conducted with persons who participated in USAID's research and who support current area related research projects, as well as with members of the wood sector cluster in BiH.

It is important to note that the questionnaire was structured in such a way as to complement a research study conducted in 2007 by USAID BiH. As part of the CCA program (Cluster Competitiveness Activity Project in Bosnia and Herzegovina) and USAID's initiative, a significant step forward was made towards establishing a *Wood Sector Cluster in BiH*, or better the Wood-Processing Industry Cluster in BiH. USAID offered support in training the member companies, as well as potential and interested

firms operating in the wood cluster industry with EU norms and regulations in the fields of standardization, technical conditions and quality management systems. USAID offered help to SMEs from the wood-processing sector, as well as members of the wood-processing cluster from central BiH. The aims of this project were to help the selected companies in the process of strengthening their export potential and increasing competitiveness on foreign markets (USAID 2007, 2). Similarly, a detail market analysis study of the EU furniture industry was created with the aim of offering a comprehensive overview of the current situation in this sector, from demand, export and import, to consumer preferences on several EU markets, including Germany, France, Italy and United Kingdom. Export recommendations were made to local companies in order to stimulate export to the above markets. During this process, individual company specifications were taken into consideration. USAID also conducted a research on the level of export preparedness of companies from the wood industry with the aim of understanding the weaknesses and potential threats, as well as strength and potential of domestic companies. The project was completed with a detailed analysis of production technologies and an overview of the available work force in the wood-processing sector (conducted in relations to the needs of the entire industry).

The aim of this study, and the entire project in general, was to increase competitiveness of local companies in the wood-processing industry. The goal was to increase the production of more processed goods and to deepen the value chain. It is evident that the wood-processing, metal-processing and most other industries in BiH are dominated by production and export of semi-processed goods. Connecting a larger number of subjects — from suppliers, producers of semi-finished and finished products, producers of complementary goods, distributors, marketing companies, export promotion institutions, certification institutions to the state — allows for the creation of a large value chain. Products which make the value chain come from different local companies and can significantly increase the competitiveness of each chain member, but also the entire country.

In essence, the study was directed towards improving the two key factors of competitiveness — those realized through clustering and internationalization and strengthening of export capacity. These two aspects are greatly interconnected.

At the end of the project (end of 2007), an analysis of project results was conducted in order to assess the success of the wood-processing industry clustering. The results confirmed that the members of the cluster increased their sales levels (sales on the foreign market were especially important) in the period of three years, between 2004 and 2007. The largest share in the overall sales level belonged to small and medium enterprises from the cluster. Capacity usage grew from 56% in 2004 to 80% in 2007, while the number of workers grew from 9.6%. Again, the biggest increase was among small and medium enterprises – 45%.²

If we look at the results that were achieved in the period from 2005 to 2007, we come to a conclusion that the concept of clusters significantly contributed to company's success, as clustering allowed them to connect in the process of new product development and joint promotional activities.

² For more information consult: USAID – Cluster Competitiveness Activity (CCA) Project in Bosnia and Herzegovina – Klaster prerade drveta i sumarstva u BiH, autor – TIM Know How Sarajevo, Sarajevo, July 2006.

When looking at export activities, it is important to note that a large number of companies (the sample included 42 companies) had a wide range of products and significant export potential. More than 74% of them export. On the basis of a detailed analysis, it was discovered that companies can join together in the value chain or supply chain as suppliers and producers of final products. An internal agreement between individual member companies is possible when it comes to agreeing on the details of production specialization. Thus, it can be concluded that there is a significant potential for clustering, or at least, a concept that is similar to clustering. Almost all companies stated that quality products are the main source of competitiveness. Certain companies also possess ISO and CE certificates. Companies exported a relatively wide range of products, and used multiple distribution channels. Their promotional activities heavily relied on fairs, presentation through brochures and personal relations.

Other types of support were problematic. They included factors such as skilled labor (commercial agents who speak foreign languages), but also issues such as inactive or non-existent company websites, inadequate use of internet communication channels, inadequate preparation of export documentation and non-existent marketing plans. The entire process of business planning was weak – from analysis of future growth rates, to risk perception, new production requests and capital investment justifications. More than 90% of companies emphasized a need for help in export activities and attraction of foreign investments – 78.6%.

The above results are closely related to the research results acquired during a research conducted in June of 2010. The accent was on potential barriers in the process of activity internationalization of local companies. Export and export potential as a type of internationalization was one of the examined aspects.

Our research included the following barriers: lack of adequate business, management and marketing skills, inadequate access to information and knowledge, difficulties in gaining access to financial resources, weak access to investment (technologies and know-how), standardization discrepancies, inadequate understanding of quality, differences in the level of product and service usage, language barriers and cultural differences, sales risks, competition from local companies, unfair behavior of multinational companies towards local companies, lack of government support in the process of internationalization, inadequate protection of copyright laws and weak legal regulations, bureaucracy, etc.

Aside from that, managers were able to add additional problems that they face, on both domestic and foreign markets.

Two types of specific answers were noted (depending on the examinees). Due to a specific sample, the examinees were divided into two groups. The first group comprised of company managers and commercial agents, while the second one consisted of examinees from research and development agencies from the wood cluster. The goal of this research was to gain two main insights into the problem – an internal (or inductive) insight from the employees and company managers, and an external one from those working on this problem through various research projects. Of course, there are variations in the answers, but they stem from varying position levels of the examinees. Consequently, company managers considered that external factors represent the main obstacle to successful development. At the same time, they completely disregarded their lack of management skills, low number of skilled workers and a lack of an overall business vision. External examinees stated that the internal dimension which included inadequate knowledge, lack of competences when it comes to operating on a foreign

market, inadequate preparation for operating on a foreign market and non-existent program activity plans were very important (but not the most important).

On the other hand, managers stated that the most important problems were: financing, lack of adequate expert help from trade chambers, lack of support and initiative from the state and state institutions (internally and from abroad), high certification and standardization costs and certification prerequisites. Adequate levels of product quality were also considered a problem. This regarded directly the quality of a product required by foreign buyers, as well as inadequate design which does not suit the consumer taste. Low number of skilled workers is also one of the problems that managers considered very important.

Similarly, low productivity has a significant impact on both, the production costs and different entrance barriers. Another problem is how to find good buyers.

Problems such as access to new technologies, information on risk status on foreign markets, procedures required for obtaining the required documentation for operating on a foreign market, as well as the overall costs of internationalization, were considered to be not so significant (medium grades). The least important problems were considered to be inadequate marketing and commercial personnel, lack of management knowledge and skills, language barriers, no internet pages, publishing of promotional materials and (non) presence at international fairs. It is obvious that companies marked the internal factors which are under the direct control of the management, as least important.

However, the interviews conducted with external experts brought different results. The prevailing opinion among external experts, who are involved in the wood-processing industry cluster, is that precisely these subjective factors create significant problems for company development. The following problems were noted: inadequate management knowledge and skills, inadequate knowledge of marketing strategies, lack of skilled production labor, inadequate knowledge of foreign languages, and the problem of allocating appropriate business partners and sales agents abroad. Inadequate workforce structure, as well as unreliable business systems (which directly influence low production levels), knowledge on new technologies, delivery problems, product quality mistakes, bad climate and infrastructure which do not allow for innovation advancement, were considered to be especially limiting.

Certain companies argued that the main problem for internationalization lies in the fact that the wood cluster in BiH does not exist. However, the wood cluster in BiH does exist. The problem is a leading company which could “lead” the cluster, and thus give an impetus to other companies to join in and create a network. A second problem which is often disregarded is that clustering should be carefully approached — in other words, clustering requires a development of a detailed plan. This is true for both, the top-down and bottom-up approaches — when the initiative for creating a cluster comes from either member companies or a leading company from a single sector (future cluster), as well as from the government under which initiative a sector cluster is formed. When forming a cluster, it is necessary to take a planned approach, with a clear goal in mind, with carefully chosen methods of clustering and pre-select target companies. Moreover, the membership requests need to be made, connection channels in the value chain established, and management well-educated. The responsible persons — cluster managers who oversee and lead the process — need to be in place, notably during the initial phases when the cluster is just being formed and put into operation. The will and the initiative of all member companies is crucial — there needs to be a general feeling that the initial investments and mutual accommodating will result in growth and

increased profits for all. The experience has shown that, so far, the lack of such a business approach and a common feeling of success represent the biggest problem. Companies were willing to participate in clustering projects as long as they were able to use grants and other donations. However, as soon as the projects were completed, the wish to continue working on the development of a cluster disappeared. Short-term use of donated funds without a long-term vision for development created a situation in which certain companies increased production in order to increase profitability. Nevertheless, the result was not a network (as it was expected) which would connect suppliers of wood products and producers of final goods, as well as agents and distributors. Projects were successful as long as “financial injections” lasted and external control conducted on behalf of donor institutions. This lack of long-term vision and inadequate knowledge on behalf of company management can be easily illustrated by the fact that a large number of companies left the cluster because they had to pay membership fees. The above fact also serves as a proof that managers in BiH, at least when talking about the wood-processing industry, tend to work without a plan, decide on intuition and previous experiences, without conducting a detailed market analysis and developing a thought-out plan. Similarly, most SMEs which are dominant in a certain industries, does not have an adequate employee structure. What is meant here is that most companies do not separate managing from ownership. Here, owners are also managers, and most often they do not have any formal education in management techniques. Owners manage and bring strategic decisions, but spend most of their time taking care of operational activities, from commercial and marketing issues to staff problems. The fact that in most SMEs in BiH manager-owner position exists as one is an enormous problem. These owners launch production mechanisms without any previous market analysis and market demands. The same is true when it comes to activity internationalization. Problems appear because of a lack of basic preparation activities. Owners believe that they can take care of most activities by themselves – they lack some common sense, as they fail to acknowledge that only big companies and companies acting in a cluster can accumulate enough financial resources and knowledge for team work activities which envisage the development of design sectors, promotion of new techniques and technologies and product quality. “Big players” find it easier to get the financial resources that they need. Let us just remember how large construction companies from BiH lost project opportunities to foreign firms both domestically and abroad just because of their internal divisions and lack of cooperation. Only when they joined in a cluster were they able to successfully compete against foreign companies.

Of course, when companies are strong and acting together, the process of applying for IPA funds available through is much easier. Currently, a project aiming at strengthening the wood sector cluster in BiH is ongoing thanks to the funds available through the EU pre-accession funds. In a situation in which the state does not have a clear development strategy (including this sector) and when the main argument is that incentives are unnecessary for the most profitable industrial sector in BiH, the EU pre-accession funds represent a significant potential and incentive for future export oriented business strategies of BiH companies.

As it was already mentioned, IPA funds are directed towards regional and cross-border cooperation. In that regard, the already approved funds, as well as those funds that are potentially available can represent a strong incentive for company strengthening, clustering and internationalization.

An adequately planned use of funds would strengthen companies and prepare them for a successful presentation on foreign markets (i.e. activity internationalization). Thanks to IPA projects, the initial phases of internationalization could be realized through cross-border cooperation projects. This cooperation would, in certain phases, grow into different forms of formal and informal cooperation. Thus, we would be able to speak about intraregional clusters. The above processes — strengthening of company potentials, domestic market growth, clustering and internationalization — are interconnected.

International experiences in SME internationalization demonstrate the following trends (Paunovic and Prebezac 2010, 66):

- Rapidly growing small markets and companies from these markets were faster and more successful in launching in opting for activity internationalization;
- Most companies start internationalizing on neighboring markets;
- Medium firms internationalize more than small and micro companies;
- Different industries show different levels (and tendency) of internationalization;
- SMEs that are already internationalized tend to create different forms of formal and informal cooperation.

Thus, it can be concluded that different types of cooperation, including clustering, are becoming not just a prerequisite for internationalization, but are often a consequence of it. The experiences of internationalization through regional and cross-border cooperation can significantly boost BiH companies and the government to go in that direction.

Similarly, it is logical that companies with specific and sophisticated knowledge and products internationalize their activities more successfully. Markets that are characterized by internally favorable business conditions, creates circumstances in which local strengthening of companies causes their significant physical growth (micro and small companies grow to medium enterprises) and total market penetration. Consequently, the result is a growing need to enter new and non-accessed markets. According to their business preconditions, the level of development and needs of a local market, different industrial sectors have different tendencies when it comes to internationalization, but also clustering. Thus, certain industries and companies are satisfied only with local markets and individual entrance into targeted foreign markets.

CONCLUSION

On the basis of research and empirical analysis, it can be concluded that BiH is yet to make significant progress in terms of strengthening of small and medium enterprises.

A weak role played by the state, as well as the absence of strategically oriented state aid, passivity and low institutional connectivity result in a feeble business environment, which is most evident when it comes to SME development. Moreover, these factors result in minor development progress and weak competitiveness of local SMEs on domestic and foreign markets. Thus, the main priorities to be taken into consideration are institutional strengthening and attraction of foreign direct investment. Of course, we cannot forget about clustering, which deserves special attention.

There is no alternative to implementing the reforms in all areas which are crucial for SME development. Here, an economical way of thinking is a priority. A strong impetus for the development of the national economy is needed if we strive towards EU accession.

BIBLIOGRAPHY

- Alagic I., and A. Abramusic. 2005. *Analiza raspolozive radne snage u sektoru drvoprerade u odnosu na potrebe industrije*. Zenica: Regionalna razvojna agencija za region Centralna BiH (REZ).
- Anastasakis, Othon, and Vesna Bojicic-Dzelinovic. 2002. *Balkan Regional Cooperation and European Integration*. The Hellenic Obsrvatory – The European Institute. London: The London School of Economics and Political Science.
- CPU – Centar za Politike i Upravljanje. 2010. *Izvjestaj o politikama podsticaja malih i srednjih preduzeca u Bosni i Hercegovini* [online] CPU/NED. <http://www.cpu.org.ba> (accessed November 2012).
- Dostic, Milenko. 2002. *Menadzment malih i srednjih preduzeca*. Sarajevo: Ekonomski fakultet u Sarajevu.
- Domljan, Vjekoslav, Anto Domazet, and Emina Resic. 2009. *Komparativna analiza konkurentne pozicije BiH ekonomije sa implikacijama za oblikovanje politika*. Sarajevo: Ekonomski institut.
- Djurasevic, Silvana. 2009. Klasteri kao osnova regionalnog razvoja u turizmu [Clusters as the base for the regional development in tourism]. *Montenegrin Journal of Economics* 5 (9): 101–109.
- Hasic, Duljko. 2006. Potencijali malih i srednjih poduzeca: Izvor ekonomskog progressa Bosne i Hercegovine; Rezultati empirijskog istrazivanja [Potentials of small and medium enterprises in Bosnia and Herzegovina: Source of economic progress; Results of empirical researches]. *Ekonomski pregled* 57 (3-4): 243–269.
- Ketels, Christian H. M., and Olga Memedovic. 2008. From clusters to cluster-based economic development. *Int. J. Technological Learning, Innovation and Development* 1 (3): 375–392.
- Kolakovic, Marko, Boris Sisek, and Bojan Moric Milovanovic. 2009. Strategic linking and networking of Croatian small and medium enterprises. *Poslovna izvrsnost* 3 (2): 25–38.
- OECD, EC, 2008. *Defining and Strengthening Sector Specific Sources of Competitiveness in the Western Balkans*. Recommendation for a regional investment strategy.
- Paunovic, Zoran, and Darko Preezac. 2010. Internationalization of small and medium-sized enterprises. *Trziste* 22 (1): 57–76.
- Perkic, Bozo. 2009. *Sektorska uporedna analiza stanja drvne, metalske i prehrambene industrije*. Projekat CREDO – Konkurentni regionalni ekonomski razvoj u SI BiH. Tuzla: The Deveopment Agency for North East Region (NERDA) of Bosnia; Competitiv Regional Economic Development (CREDO) project; Swedish International Development & Cooperation Agency (SIDA).
- Sadzak, M. 2006. *Europsko poduzece u globalnoj ekonomiji*. Zagreb; Sarajevo: Synopsis.
- Tijanac, Lela. 2009. Politika Europske unije u foriranju klastera [European union cluster policy]. *Ekonomska istrazivanja* 22 (1): 149–167.
- TIM Know How. 2006. *Project in Bosnia and Herzegovina: Klaster prerade drveta i sumarstva u BiH*. Sarajevo: USAID – Cluster Competitiveness Activity (CCA)
- USAID. 2007. Podrska promociji i izvozu preduzeca Klastera drvne prerade i sumarstva u Regiji Centralna BiH. *USAID/REZ*, Septembar 2007.